

Thomas Jefferson to John Wayles Eppes, June 24, 1813 , from The Works of Thomas Jefferson in Twelve Volumes. Federal Edition. Collected and Edited by Paul Leicester Ford.

TO JOHN WAYLES EPPES J. MSS.

Monticello, June 24, 1813.

Dear Sir, —This letter will be on politics only. For although I do not often permit myself to think on that subject, it sometimes obtrudes itself, and suggests ideas which I am tempted to pursue. Some of these relating, to the business of finance, I will hazard to you, as being at the head of that committee, but intended for yourself individually, or such as you trust, but certainly not for a mixed committee.

It is a wise rule and should be fundamental in a government disposed to cherish its credit, and at the same time to restrain the use of it within the limits of its faculties, “never to borrow a dollar without laying a tax in the same instant for paying the interest annually, and the principal within a given term; and to consider that tax as pledged to the creditors on the public faith.” On such a pledge as this, sacredly observed, a government may always command, on a *reasonable interest*, all the lendable money of their citizens, while the necessity of an equivalent tax is a salutary warning to them and their constituents against oppressions, bankruptcy, and its inevitable consequence, revolution. But the term of redemption must be moderate, and at any rate within the limits of their rightful powers. But what limits, it will be asked, does this prescribe to their powers? What is to hinder them from creating a perpetual debt? The laws of nature, I answer. The earth belongs to the living, not to the dead. The will and the power of man expire with his life, by nature's law. Some societies give it an artificial continuance, for the encouragement of industry; some

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refuse it, as our aboriginal neighbors, whom we call barbarians. The generations of men may be considered as bodies or corporations. Each generation has the usufruct of the earth during the period of its continuance. When it ceases to exist, the usufruct passes on to the succeeding generation, free and unincumbered, and so on, successively, from one generation to another forever. We may consider each generation as a distinct nation, with a right, by the will of its majority,

to bind themselves, but none to bind the succeeding generation, more than the inhabitants of another country. Or the case may be likened to the ordinary one of a tenant for life, who may hypothecate the land for his debts, during the continuance of his usufruct; but at his death, the reversioner (who is also for life only) receives it exonerated from all burthen. The period of a generation, or the term of its life, is determined by the laws of mortality, which, varying a little only in different climates, offer a general average, to be found by observation. I turn, for instance, to Buffon's tables, of twenty-three thousand nine hundred and ninety-four deaths, and the ages at which they happened, and I find that of the numbers of all ages living at one moment, half will be dead in twenty-four years and eight months. But (leaving out minors, who have not the power of self-government) of the adults (of twenty-one years of age) living at one moment, a majority of whom act for the society, one half will be dead in eighteen years and eight months. At nineteen years then from the date of a contract, the majority of the contractors are dead, and their contract with them. Let this general theory be applied to a particular case. Suppose the annual births of the State of New York to be twenty-three thousand nine hundred and ninety-four, the whole number of its inhabitants, according to Buffon, will be six hundred and seventeen thousand seven hundred and three, of all ages. Of these there would constantly be two hundred and sixty-nine thousand two hundred and eighty-six minors, and three hundred and forty-eight thousand four hundred and seventeen adults, of which last, one hundred and seventy-four thousand two hundred and nine will be a majority. Suppose that majority, on the first day of the year 1794, had borrowed a sum of money equal to the fee-simple value of the State, and to have consumed it in eating, drinking and making merry in their

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day; or, if you please, in quarrelling and fighting with their unoffending neighbors. Within eighteen years and eight months, one half of the adult citizens were dead. Till then, being the majority, they might rightfully levy the interest of their debt annually on themselves and their fellow-revellers, or fellow-champions. But at that period, say at this moment, a new majority have come into place, in their own right, and not under the rights, the conditions, or laws of their predecessors. Are they bound to acknowledge the debt, to consider the preceding generation as having had a right to eat up the whole soil of their country, in the course of a life, to alienate it from them, (for it would be an alienation to the creditors,)

and would they think themselves either legally or morally bound to give up their country and emigrate to another for subsistence? Every one will say no; that the soil is the gift of God to the living, as much as it had been to the deceased generation; and that the laws of nature impose no obligation on them to pay this debt. And although, like some other natural rights, this has not yet entered into any declaration of rights, it is no less a law, and ought to be acted on by honest governments. It is, at the same time, a salutary curb on the spirit of war and indebtment, which, since the modern theory of the perpetuation of debt, has drenched the earth with blood, and crushed its inhabitants under burthens ever accumulating. Had this principle been declared in the British bill of rights, England would have been placed under the happy disability of waging eternal war, and of contracting her thousand millions of public debt. In seeking, then, for an ultimate term for the redemption of our debts, let us rally to this principle, and provide for their payment within the term of nineteen years at the farthest. Our government has not, as yet, begun to act on the rule of loans and taxation going hand in hand. Had any loan taken place in my time, I should have strongly urged a redeeming tax. For the loan which has been made since the last session of Congress, we should now set the example of appropriating some particular tax, sufficient to pay the interest annually, and the principal within a fixed term, less than nineteen years. And I hope yourself and your committee will render the immortal service of introducing this practice. Not that it is expected that Congress should formally declare

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such a principle. They wisely enough avoid deciding on abstract questions. But they may be induced to keep themselves within its limits.

I am sorry to see our loans begin at so exorbitant an interest. And yet, even at that you will soon be at the bottom of the loan-bag. We are an agricultural nation. Such an one employs its sparings in the purchase or improvement of land or stocks. The lendable money among them is chiefly that of orphans and wards in the hands of executors and guardians, and that which

the farmer lays by till he has enough for the purchase in view. In such a nation there is one and one only resource for loans, sufficient to carry them through the expense of a war; and that will always be sufficient, and in the power of an honest government, punctual in the preservation of its faith. The fund I mean, is *the mass of circulating coin*. Every one knows, that although not literally, it is nearly true, that every paper dollar emitted banishes a silver one from the circulation. A nation, therefore, making its purchases and payments with bills fitted for circulation, thrusts an equal sum of coin out of circulation. This is equivalent to borrowing that sum, and yet the vendor receiving payment in a medium as effectual as coin for his purchases or payments, has no claim to interest. And so the nation may continue to issue its bills as far as its wants require, and the limits of the circulation will admit. Those limits are understood to extend with us at present, to two hundred millions of dollars, a greater sum than would be necessary for any war. But this, the only resource which the government could command with certainty, the States have unfortunately fooled away, nay corruptly alienated to swindlers and shavers, under the cover of private banks. Say, too, as an additional evil, that the disposal funds of individuals, to this great amount, have thus been withdrawn from improvement and useful enterprise, and employed in the useless, usurious and demoralizing practices of bank directors and their accomplices. In the war of 1755, our State availed itself of this fund by issuing a paper money, bottomed on a specific tax for its redemption, and, to insure its credit, bearing an interest of five per cent. Within a very short time, not a bill of this emission was to be found in circulation. It was locked up in the chests of executors, guardians, widows, farmers, &c. We then issued

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bills bottomed on a redeeming tax, but bearing no interest. These were readily received, and never depreciated a single farthing. In the revolutionary war, the old Congress and the States issued bills without interest, and without tax. They occupied the channels of circulation very freely, till those channels were overflowed by an excess beyond all the calls of

circulation. But although we have so improvidently suffered the field of circulating medium to be filched from us by private individuals, yet I think we may recover it in part, and even in the whole, if the States will co-operate with us. If treasury bills are emitted on a tax appropriated for their redemption in fifteen years, and (to insure preference in the first moments of competition) bearing an interest of six per cent. there is no one who would not take them in preference to the bank paper now afloat, on a principle of patriotism as well as interest; and they would be withdrawn from circulation into private hoards to a considerable amount. Their credit once established, others might be emitted, bottomed also on a tax, but not bearing interest; and if ever their credit faltered, open public loans, on which these bills alone should be received as specie. These, operating as a sinking fund, would reduce the quantity in circulation, so as to maintain that in an equilibrium with specie. It is not easy to estimate the obstacles which, in the beginning, we should encounter in ousting the banks from their possession of the circulation; but a steady and judicious alternation of emissions and loans, would reduce them in time. But while this is going on, another measure should be pressed, to recover ultimately our right to the circulation. The States should be applied to, to transfer the right of issuing circulating paper to Congress exclusively, *in perpetuum*, if possible, but during the war at least, with a saving of charter rights. I believe that every State west and South of Connecticut river, except Delaware, would immediately do it; and the others would follow in time. Congress would, of course, begin by obliging unchartered banks to wind up their affairs within a short time, and the others as their charters expired, forbidding the subsequent circulation of their paper. This they would supply with their own, bottomed, every emission, on an adequate

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tax, and bearing or not bearing interest, as the state of the public pulse should indicate. Even in the noncomplying States, these bills would

make their way, and supplant the unfunded paper of their banks, by their solidity, by the universality of their currency, and by their receivability for customs and taxes. It would be in their power, too, to curtail those banks to the amount of their actual specie, by gathering up their paper, and running it constantly on them. The national paper might thus take place even in the non-complying States. In this way, I am not without a hope, that this great, this sole resource for loans in an agricultural country, might yet be recovered for the use of the nation during war; and, if obtained *in perpetuum*, it would always be sufficient to carry us through any war; provided, that in the interval between war and war, all the outstanding paper should be called in, coin be permitted to flow in again, and to hold the field of circulation until another war should require its yielding place again to the national medium.

But it will be asked, are we to have no banks? Are merchants and others to be deprived of the resource of short accommodations, found so convenient? I answer, let us have banks; but let them be such as are alone to be found in any country on earth, except Great Britain. There is not a bank of discount on the continent of Europe, (at least there was not one when I was there,) which offers anything but cash in exchange for discounted bills. No one has a natural right to the trade of a money lender, but he who has the money to lend. Let those then among us, who have a monied capital, and who prefer employing it in loans rather than otherwise, set up banks, and give cash or national bills for the notes they discount. Perhaps, to encourage them, a larger interest than is legal in the other cases might be allowed them, on the condition of their lending for short periods only. It is from Great Britain we copy the idea of giving paper in exchange for discounted bills; and while we have derived from that country some good principles of government and legislation, we unfortunately run into the most servile imitation of all her practices, ruinous as they prove to her, and with the gulph yawning before us into which these very practices are

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precipitating her. The unlimited emission of bank paper has banished all her specie, and is now, by a depreciation acknowledged by her own

statesmen, carrying her rapidly to bankruptcy, as it did France, as it did us, and will do us again, and every country permitting paper to be circulated, other than that by public authority, rigorously limited to the just measure for circulation. Private fortunes, in the present state of our circulation, are at the mercy of those self-created money lenders, and are prostrated by the floods of nominal money with which their avarice deluges us. He who lent his money to the public or to an individual, before the institution of the United States Bank, twenty years ago, when wheat was well sold at a dollar the bushel, and receives now his nominal sum when it sells at two dollars, is cheated of half his fortune; and by whom? By the banks, which, since that, have thrown into circulation ten dollars of their nominal money where was one at that time.

Reflect, if you please, on these ideas, and use them or not as they appear to merit. They comfort me in the belief, that they point out a resource ample enough, without overwhelming war taxes, for the expense of the war, and possibly still recoverable; and that they hold up to all future time a resource within ourselves, ever at the command of government, and competent to any wars into which we may be forced. Nor is it a slight object to equalize taxes through peace and war.¹ * * * Ever affectionately yours.

* The two following letters of Jefferson to Eppes continue the subject of this:

“ Poplar For. Sep. 11. 1813.

“ Dear Sir,—I turn with great reluctance from the functions of a private citizen to matters of state. The swaggering on deck as a passenger, is so much more pleasant than clambering the ropes as a seaman, & my confidence in the skill & activity of those employed to work the vessel is so entire that I notice nothing *en passant* but how smoothly she moves. Yet I avail myself of the leisure which a visit to this place procures me, to revolve again in my mind the subject of my former letter; & in compliance with the request of yours of to

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add some further thoughts on it. Though intended as supplemental to that, I may fall into repetitions, not having that with me, nor paper or book of any sort to supply the defect of a memory on the wane.

“The objects of finance in the US. have hitherto been very simple; merely to provide for the support of the govmt on it's peace establishment, & to pay the debt contracted in the revolutionary war, a war which will be sanctioned by the approbation of posterity through all future ages. The means provided for these objects were ample, and resting on a consumption which little affected the poor, may be said to have been sensibly felt by none. The fondest wish of my heart ever was that the surplus portion of these taxes, destined for the payment of that debt, should, when that object was accomplished, be continued by annual or biennial re-enactments, and applied, in time of peace, to the improvement of our country by canals, roads and useful institutions, literary or others; and in time of war to the maintenance of the war. And I believe that keeping the civil list within proper bounds, the surplus would have been sufficient for any war, administered with integrity and judgment. For authority to apply the surplus to objects of improvement, an amendment of the constitution would have been necessary. I have said that the taxes should be continued by annual or biennial re-enactments, because a constant hold, by the nation, of the strings of the public purse, is a salutary restraint from which an honest government ought not to wish, nor a corrupt one to be permitted to be free. No tax should ever be yielded for a longer term than that of the congress wanting it, except when pledged for the reimbursement of a loan. On this system, the standing income being once liberated from the revolutionary debt, no future loan nor future tax would ever become necessary, and wars would no otherwise affect our pecuniary interests than by suspending the improvements belonging to a state of peace. This happy consummation would have been achieved by another eight years' administration, conducted by Mr. Madison, and executed in its financial department by Mr. Gallatin, could peace have been so long preserved. So enviable a state in prospect for our country, induced me to temporize, and to bear with national wrongs which under no other prospect ought. ever to have been unresented or

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unresisted. My hope was, that by giving time for reflection, and retraction of injury, a sound calculation of their own interests would induce the aggressing nations to redeem their own character by a return to the practice of right. But our lot happens to have been cast in an age when two nations to whom circumstances have given a temporary superiority over others, the one by land, the other by sea, throwing off all restraints of morality, all pride of national character, forgetting the mutability of fortune and the inevitable doom which the laws of nature pronounce against departure from justice, individual or national, have dared to treat her reclamations with derision, and to set up force instead of reason as the umpire of nations. Degrading themselves thus from the character of lawful societies into lawless bands of robbers and pirates, they are abusing their brief ascendancy by desolating the world with blood and rapine. Against such a banditti, war had become less ruinous than peace, for then peace was a war on one side only. On the final and formal declarations of England, therefore, that she never would repeal her orders of council as to us, until those of France should be repealed as to other nations as well as us, and that no practicable arrangement against her impressment of our seamen could be proposed or devised, war was justly declared, and ought to have been declared. This change of condition has clouded our prospects of liberation from debt, and of being able to carry on a war without new loans or taxes. But although deferred, these prospects are not desperate. We should keep forever in view the state of 1817, towards which we were advancing, and consider it as that which we must attain. Let the old funds continue appropriated to the civil list and revolutionary debt, and the reversion of the surplus to improvement during peace, and let us take up this war as a separate business, for which, substantive and distinctive provision is to be made.

“That we are bound to defray its expenses within our own time, and unauthorized to burden posterity with them, I suppose to have been proved in my former letter. I will place the question nevertheless in one additional point of view. The former regarded their independent right over the earth; this over their own persons. There have existed nations, and civilized and learned nations, who have thought that a father had a right

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to sell his child as a slave, in perpetuity; that he could alienate his body and industry conjointly, and a *fortiori* his industry separately; and consume its fruits himself. A nation asserting this fratricide right might well suppose they could burthen with public as well as private debt their “*nati natorum, et qui nascentur at illis.*” But we, this age, and in this country especially are advanced beyond those notions of natural law. We acknowledge that our children are born free; that that freedom is the gift of nature, and not of him who begot them; that though under our care during infancy, and therefore of necessity under a duly tempered authority, that care is confided to us to be exercised for the preservation and good of the child only; and his labors during youth are given as a retribution for the charges of infancy. As he was never the property of his father, so when adult he is *sui juris*, entitled himself to the use of his own limbs and the fruits of his own exertions: so far we are advanced, without mind enough, it seems, to take the whole step. We believe, or we act as if we believed, that although an individual father cannot alienate the labor of his son, the aggregate body of fathers may alienate the labor of all their sons, of their posterity, in the aggregate, and oblige them to pay for all the enterprises, just or unjust, profitable or ruinous, into which our vices, our passions, or our personal interests may lead us. But I trust that this proposition needs only to be looked at by an American to be seen in its true point of view, and that we shall all consider ourselves unauthorized to saddle posterity with our debts, and morally bound to pay them ourselves; and consequently within what may be deemed the period of a generation, or the life of the majority. In my former letter I supposed this to be a little*

* A lapse of memory, not having the letter to recur to.

over twenty years. We must raise then ourselves the money for this war, either by taxes within the year, or by loans; and if by loans, we must repay them ourselves, proscribing forever the English practice of perpetual funding; the ruinous consequences of which, putting right out of the question, should be a sufficient warning to a considerate nation to avoid the example.

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“The raising money by Tontine, more practised on the continent of Europe than in England, is liable to the same objection, of encroachment on the independent rights of posterity; because the annuities not expiring gradually with the lives on which they rest, but all on the death of the last survivor only, they will of course over-pass the term of a generation, and the more probably as the subjects on whose lives the annuities depend, are generally chosen of the ages, constitutions and occupations most favorable to long life.

“Annuities for single lives are also beyond our powers, because the single life may pass the term of a generation. This last practice is objectionable too, as encouraging celibacy, and the disinheritance of heirs.

“Of the modes which are within the limits of right, that of raising within the year its whole expenses by taxation, might be beyond the abilities of our citizens to bear. It is, moreover, generally desirable that the public contributions should be as uniform as practicable from year to year, that our habits of industry and of expense may become adapted to them; and that they may be duly digested and incorporated with our annual economy.

“There remains then for us but the method of limited anticipation, the laying taxes for a term of years within that of our right, which may be sold for a present sum equal to the expenses of the year; in other words, to obtain a loan equal to the expenses of the year, laying a tax adequate to its interest, and to such a surplus as will reimburse, by growing instalments, the whole principal within the term. This is, in fact, what has been called raising money on the sale of annuities for years. In this way a new loan, and of course a new tax, is requisite every year during the continuance of the war; and should that be so long as to produce an accumulation of tax beyond our ability, in time of war the resource would-be an enactment of the taxes requisite to ensure good terms, by securing the lender, with a suspension of the payment of instalments of principal and perhaps of interest also, until the restoration of peace. This method of anticipating our taxes, or of borrowing on annuities for years, insures repayment to the lender, guards the rights of posterity, prevents a perpetual alienation of the public contributions, and consequent

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destitution of every resource even for the ordinary support of government. The public expenses of England during the present reign, have amounted to the fee simple value of the whole island. If its whole soil could be sold, farm by farm, for its present market price, it would not defray the cost of governing it during the reign of the present king, as managed by him. Ought not then the right of each successive generation to be guaranteed against the dissipations and corruptions of those preceding, by a fundamental provision in our constitution? And, if that has not been made, does it exist the less; there being between generation and generation, as Between nation and nation, no other law than that of nature? And is it the less dishonest to do what is wrong, because not expressly prohibited by written law? Let us hope our moral principles are not yet in that stage of degeneracy, and that in instituting the system of finance to be hereafter pursued, we shall adopt the only safe, the only lawful and honest one, of borrowing on such short terms of reimbursement of interest and principal as will fall within the accomplishment of our own lives.

“The question will be asked and ought to be looked at, what is to be the resource if loans cannot be obtained? There is but one, ‘ *Carthago delenda est.*’ Bank paper must be suppressed, and the circulating medium must be restored to the nation to whom it belongs. It is the only fund on which they can rely for loans; it is the only resource which can never fail them, and it is an abundant one for every necessary purpose. Treasury bills, bottomed on taxes, bearing or not bearing interest, as may be found necessary, thrown into circulation will take the place of so much gold and silver, which last, when crowded, will find an efflux into other countries, and thus keep the quantum of medium at its salutary level. Let banks continue if they please, but let them discount for cash alone or for treasury notes. They discount for cash alone in every other country on earth except Great Britain, and her too often unfortunate copyist, the United States. If taken in time they may be rectified by degrees, and without injustice, but if let alone till the alternative forces itself on us, of submitting to the enemy for want of funds, or the suppression of bank paper, either by law or convulsion, we cannot foresee how it will end. The remaining questions are

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mathematical only. How are the taxes and the time of their continuance to be proportioned to the sum borrowed, and the stipulated interest?

“The rate of interest will depend on the state of the money market, and the duration of the tax on the will of the legislature. Let us suppose that (to keep the taxes as low as possible) they adopt the term of twenty years for reimbursement, which we call their maximum; and let the interest they last gave of $7\frac{1}{2}$ per cent. be that which they must expect to give. The problem then will stand in this form. Given the sum borrowed (which call s ,) a million of dollars for example; the rate of interest, .075 or $75/100$ (call it r — i) and the duration of the annuity or tax, twenty years, ($= t$,) what will be (a) the annuity or tax, which will reimburse principal and interest within the given term? This problem, laborious and barely practicable to common arithmetic, is readily enough solved, Algebraically and with the aid of Logarithms. The theorem applied to the case is the solution of which gives $a = \$98,684.2$, nearly \$100,000, or $1/10$ of the sum borrowed.

“It may be satisfactory to see stated in figures the yearly progression of reimbursement of the million of dollars, and their interest at $7\frac{1}{2}$ per cent. effected by the regular payment of — dollars annually. It will be as follows:

Borrowed, \$1,000,000.

Balance after 1st paym't, \$975,000

“ 2d “ 948,125

“ 3d “ 919,234

“ 4th “ 888,177

“ 5th “ 854,790

“ 6th “ 818,900

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“ 7th “ 780,318

“ 8th “ 738,841

“ 9th “ 694,254

“ 10th “ 646,324

Balance after 11th paym't, \$594,800

“ 12th “ 539,410

“ 13th “ 479,866

“ 14th “ 415,850

“ 15th “ 347,039

“ 16th “ 273,068

“ 17th “ 193,548

“ 18th “ 108,064

“ 19th “ 16,169

“If we are curious to know the effect of the same annual sum on loans at lower rates of interest, the following process will give it:

“From the Logarithm of a , substract the Logarithm $r-i$, and from the number of the remaining Logarithm substract s , then substract the Logarithm of this last remainder from the difference between the Logarithm a and Logarithm $r-i$ as found before, divide

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the remainder by Logarithm r , the quotient will be t . It will be found that — dollars will reimburse a million,

Years. Dollars.

At $7\frac{1}{2}$ per cent, interest in 19.17, costing in the whole 1,917,000

7 “ “ 17.82, “ “ 1,782,000

$6\frac{1}{2}$ “ “ 16.67, “ “ 1,667,000

6 “ “ 15.72, “ “ 1,572,000

$5\frac{1}{2}$ “ “ 14.91, “ “ 1,491,000

5 “ “ 14. 2, “ “ 1,420,000

0 “ “ 10. “ “ 1,000,000

“By comparing the 1st and the last of these articles, we see that if the United States were in possession of the circulating medium, as they ought to be, they could redeem what they could borrow from that, dollar for dollar, and in ten annual instalments; whereas, the usurpation of that fund by bank paper, obliging them to borrow elsewhere at $7\frac{1}{2}$ per cent., two dollars are required to reimburse one. So that it is literally true that the toleration of banks of paper-discount, costs the United States one-half their war taxes; or, in other words, doubles the expenses of every war. Now think, but for a moment, what a change of condition that would be, which should save half our war expenses, require but half the taxes, and enthrall us in debt but half the time.

“Two loans having been authorized, of sixteen and seven and a half millions, they will require for their due reimbursement two millions three hundred and fifty thousand dollars of the three millions expected from the taxes lately imposed. When the produce shall be

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known of the several items of these taxes, such of them as will make up this sum should be selected, appropriated, and pledged for the reimbursement of these loans. The balance of six hundred and fifty thousand dollars, will be provision for 6½ millions of the loan of the next year; and in all future loans, I would consider it as a rule never to be departed from, to lay a tax of 1/10, and pledge it for the reimbursement.

“In the preceding calculations no account is taken of the increasing population of the United States, which we know to be in a compound ratio of more than 3 per cent. per annum; nor of the increase of wealth, proved to be in a higher ratio by the increasing productiveness of the imports on consumption. We shall be safe therefore in considering every tax as growing at the rate of 3 per cent. compound ratio annually. I say *every tax*, for as to those on consumption the fact is known; and the same growth will be found in the value of real estate, if valued annually: or, which would be better, 3 per cent. might be assumed by the law as the average increase, and an addition of 1/33 of the tax paid the preceding year, be annually called for. Supposing then a tax laid which would bring in \$100,000 at the time it is laid, and that it increases annually at the rate of 3 per cent. compound, its important effect may be seen in the following statement:

“The 1st year 103,090, and reduces the million to \$972,000

2d “ 106,090, “ “ 938,810

3d “ 109,273, “ “ 899,947

4th “ 112,556, “ “ 854,896

5th “ 115,920, “ “ 803,053

6th “ 119,410, “ “ 743,915

7th “ 122,990, “ “ 676,719

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8th “ 126,680, “ “ 600,793

915,913

“It yields the 9th year \$130,470, and reduces it to \$515,382

10th “ 134,390, “ “ 419,646

11th “ 138,420, “ “ 312,699

12th “ 142,580, “ “ 193,517

13th “ 146,850, “ “ 61,181

14th “ 151,260 over pays, 85,491

1,759,883

“This estimate supposes a million borrowed at 7½ per cent. but, if obtained from the circulation without interest, it would be reimbursed within eight years and eight months, instead of fourteen years, or of twenty years, on our first estimate.

“But this view being in prospect only, should not affect the quantum of tax which the former calculation pronounces necessary. Our creditors have a right to certainty, and to consider these political speculations as make-weights only to that, and at our risk, not theirs. To us belongs only the comfort of hoping an earlier liberation than that calculation holds out, and the right of providing expressly that the tax hypothecated shall cease so soon as the debt it secures shall be actually reimbursed; and I will add that to us belongs also the regret that improvident legislators should have exposed us to a twenty years' thralldom of debt and taxes, for the necessary defence of our country, where the same contributions would have liberated us in eight or nine years; or have reduced us perhaps to an abandonment

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of our rights, by their abandonment of the only resource which could have ensured their maintenance.

“I omit many considerations of detail because they will occur to yourself, and my letter is too long already. I can refer you to no book as treating of this subject fully and suitably to our circumstances. Smith gives the history of the public debt of England, and some views adapted to that; and Dr. Price, in his book on annuities, has given a valuable chapter on the effects of a sinking fund. But our business being to make every loan tax a sinking fund for itself, no general one will be wanting; and if my confidence is well founded that our original import, when freed from the revolutionary debt, will suffice to embellish and improve our country in peace, and defend her in war, the present may be the only occasion of perplexing ourselves with sinking funds.

“Should the injunctions under which I laid you, as to my former letter, restrain any useful purpose to which you could apply it, I remove them; preferring public benefit to all personal considerations. My original disapprobation of banks circulating paper is not unknown, nor have I since observed any effects either on the morals or fortunes of our citizens, which are any counterbalance for the public evils produced; and a thorough conviction that, if this war continues, that circulation must be suppressed, or the government shaken to its foundation by the weight of taxes, and impracticability to raise funds on them, renders duty to that paramount to the love of ease and quiet.

“When I was here in May last, I left it without knowing that Francis was at school in this neighborhood. As soon as I returned, on the present occasion, I sent for him, but his tutor informed me that he was gone on a visit to you. I shall hope permission for him always to see me on my visits to this place, which are three or four times a year.”

“ Monticello, November 6, 1813.

“ Dear Sir,—I had not expected to have troubled you again on the subject of finance; but since the date of my last, I have received from Mr. Law a letter covering a memorial

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on that subject, which, from its tenor, I conjecture must have been before Congress at their two last sessions. This paper contains two propositions; the one for issuing treasury notes, bearing interest, and to be circulated as money; the other for the establishment of a national bank. The first was considered in my former letter; and the second shall be the subject of the present.

“The scheme is for Congress to establish a national bank, suppose of thirty millions capital, of which they shall contribute ten millions in new six per cent. stock, the States ten millions, and individuals ten millions, one half of the two last contributions to be of a similar stock, for which the parties are to give cash to Congress; the whole, however, to be under the exclusive management of the individual subscribers, who are to name all the directors; neither Congress nor the States having any power of interference in its administration. Discounts are to be at five per cent., but the profits are expected to be seven per cent. Congress then will be paying six per cent. on twenty millions, and receiving seven per cent. on ten millions, being its third of the institution: so that on the ten millions cash which they receive from the States and individuals, they will, in fact, have to pay but five per cent. interest. This is the bait. The charter is proposed to be for forty or fifty years, and if any future augmentations should take place, the individual proprietors are to have the privilege of being the sole subscribers for that. Congress are further allowed to issue to the amount of three millions of notes, bearing interest, which they are to receive back in payment for lands at a premium of five or ten per cent., or as subscriptions for canals, roads, and bridges, in which undertakings they are, of course, to be engaged. This is a summary of the case as I understand it; but it is very possible I may not understand it in all its parts, these schemes being always made unintelligible for the gulls who are to enter into them. The advantages and disadvantages shall be noted promiscuously as they occur; leaving out the speculation of canals, &c., which, being an episode only in the scheme, may be omitted, to disentangle it as much as we can.

“1. Congress are to receive five millions from the States (if they will enter into this partnership, which few probably will), and five millions from the individual subscribers, in

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exchange for ten millions of six per cent. stock, one per cent. of which, however, they will make on their ten millions of stock remaining in bank, and so reduce it, in effect, to a loan of ten millions at five per cent. interest. This is good; but

“2. They authorize this bank to throw into circulation ninety millions of dollars, (three times the capital,) which increases our circulating medium fifty per cent., depreciates proportionably the present value of a dollar, and raises the price of all future purchases in the same proportion.

“3. This loan of ten millions at five per cent., is to be once for all, only. Neither the terms of the scheme, nor their own prudence could ever permit them to add to the circulation in the same, or any other way, for the supplies of the succeeding years of the war. These succeeding years then are to be left unprovided for, and the means of doing it in a great measure precluded.

“4. The individual subscribers, on paying their own five millions of cash to Congress, become the depositories of ten millions of stock belonging to Congress, five millions belonging to the States, and five millions to themselves, say twenty millions, with which, as no one has a right ever to see their books, or to ask a question, they may choose their time for running away, after adding to their booty the proceeds of as much of their own notes as they shall be able to throw into circulation.

“5. The subscribers may be one, two, or three, or more individuals, (many single individuals being able to pay in the five millions,) whereupon this bank oligarchy or monarchy enters the field with ninety millions of dollars, to direct and control the politics of the nation; and of the influence of these institutions on our politics, and into what scale it will be thrown, we have had abundant experience. Indeed, England herself may be the real, while her friend and trustee here shall be the nominal and sole subscriber.

“6. This state of things is to be fastened on us, without the power of relief, for forty or fifty years. That is to say, the eight millions of people now existing, for the sake of receiving

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one dollar and twenty-five cents apiece, at five per cent., interest, are to subject the fifty millions of people who are to succeed them within that term, to the payment of forty-five millions of dollars, principal and interest, which will be payable in the course of the fifty years.

“7. But the great and national advantage is to be the relief of the present *scarcity of money*, which is produced and proved by,

“1. The additional industry created to supply a variety of articles for the troops, ammunition, &c.

“2. By the cash sent to the frontiers, and the vacuum occasioned in the trading towns by that.

“3. By the late loans.

“4. By the necessity of recurring to shavers with *good* paper, which the existing banks are not able to take up; and

“5. By the numerous applications of bank charters, showing that an increase of circulating medium is wanting.

“Let us examine these causes and proofs of the want of an increase of medium, one by one.

“1. The additional industry created to supply a variety of articles for troops, ammunition, &c. Now, I had always supposed that war produced a diminution of industry, by the number of hands it withdraws from industrious pursuits for employment in arms, &c., which are totally unproductive. And if it calls for new industry in the articles of ammunition and other military supplies, the hands are borrowed from other branches on which the demand

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is slackened by the war; so that it is but a shifting of these hands from one pursuit to another.

“2. The cash sent to the frontiers occasions a vacuum in the trading towns, which requires a new supply. Let us examine what are the calls for money to the frontiers. Not for clothing, tents, ammunition, arms, which are all bought in the trading towns. Not for provisions; for although these are bought partly in the immediate country, bank bills are more acceptable there than even in the trading towns. The pay of the army calls for some cash, but not a great deal, as bank notes are as acceptable with the military men, perhaps more so; and what cash is sent must find its way back again in exchange for the wants of the upper from the lower country. For we are not to suppose that cash stays accumulating there forever.

“3. This scarcity has been occasioned by the late loans. But does the government borrow money to keep it in their coffers? Is it not instantly restored to circulation by payment for its necessary supplies? And are we to restore a vacuum of twenty millions of dollars by an emission of ninety millions?

“4. The want of medium is proved by the recurrence of individuals with *good* paper to brokers at exorbitant interest; and

“5. By the numerous applications to the State governments for additional banks; New York wanting eighteen millions, Pennsylvania ten millions, &c. But say more correctly, the speculators and spendthrifts of New York and Pennsylvania, but never consider them as being the States of New York and Pennsylvania. These two items shall be considered together.

“It is a litigated question, whether the circulation of paper, rather than of specie, is a good or an evil. In the opinion of England and of English writers it is a good; in that of all other nations it is an evil; and excepting England and her copyist, the United States, there is not a nation existing, I believe, which tolerates a paper circulation. The experiment is

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going on, however, desperately in England, pretty boldly with us, and at the end of the chapter, we shall see which opinion experience approves: for I believe it to be one of those cases where mercantile clamor will bear down reason, until it is corrected by ruin. In the meantime, however, let us reason on this new call for a national bank.

“After the solemn decision of Congress against the renewal of the charter of the bank of the United States, and the grounds of that decision, (the want of constitutional power,) I had imagined that question at rest, and that no more applications would be made to them for the incorporation of banks. The opposition on that ground to its first establishment, the small majority by which it was overborne, and the means practiced for obtaining it, cannot be already forgotten. The law having passed, however, by a majority, its opponents, true to the sacred principle of submission to a majority, suffered the law to flow through its term without obstruction. During this, the nation had time to consider the constitutional question, and when the renewal was proposed, they condemned it, not by their representatives in Congress only, but by express instructions from different organs of their will. Here then we might stop, and consider the memorial as answered. But, setting authority apart, we will examine whether the Legislature ought to comply with it, even if they had the power.

“Proceeding to reason on this subject, some principles must be premised as forming its basis. The adequate price of a thing depends on the capital and labor necessary to produce it. [In the term *capital*, I mean to include science, because capital as well as labor has been employed to acquire it.] Two things requiring the same capital and labor, should be of the same price. If a gallon of wine requires for its production the same capital and labor with a bushel of wheat, they should be expressed by the same price, derived from the application of a common measure to them. The comparative prices of things being thus to be estimated and expressed by a common measure, we may proceed to observe, that were a country so insulated as to have no commercial intercourse with any other, to confine the interchange of all its wants and supplies within itself, the amount of circulating medium, as a common measure for adjusting these exchanges, would be quite immaterial. If their circulation, for instance, were of a million of dollars, and the annual produce of

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their industry equivalent to ten millions of bushels of wheat, the price of a bushel of wheat might be one dollar. If, then, by a progressive coinage, their medium should be doubled, the price of a bushel of wheat might become progressively two dollars, and without inconvenience. Whatever be the proportion of the circulating medium to the value of the annual produce of industry, it may be considered as the representative of that industry. In the first case, a bushel of wheat will be represented by one dollar; in the second, by two dollars. This is well explained by Hume, and seems admitted by Adam Smith, B. 2. c. 2, 436, 441, 490. But where a nation is in a full course of interchange of wants and supplies with all others, the proportion of its medium to its produce is no longer indifferent. *Ib.* 441. To trade on equal terms, the common measure of values should be as nearly as possible on a par with that of its corresponding nations, whose medium is in a sound state; that is to say, not in an accidental state of excess or deficiency. Now, one of the great advantages of specie as a medium is, that being of universal value, it will keep itself at a general level, flowing out from where it is too high into parts where it is lower. Whereas, if the medium be of local value only, as paper money, if too little, indeed, gold and silver will flow in to supply the deficiency; but if too much, it accumulates, banishes the gold and silver not locked up in vaults and hoards, and depreciates itself; that is to say, its proportion to the annual produce of industry being raised, more of it is required to represent any particular article of produce than in other countries. This is agreed by Smith, (B. 2. c. 2. 437,) the principle advocate for a paper circulation; but advocating it on the sole condition that it be strictly regulated. He admits, nevertheless, that 'the commerce and industry of a country cannot be so secure when suspended on the Dædalian wings of paper money, as on the solid ground of gold and silver; and that in the time of war, the insecurity is greatly increased, and great confusion possible where the circulation is for the greater part in paper.' B. 2. c. 2. 484. But in a country where loans are uncertain, and a specie circulation the only sure resource for them, the preference of that circulation assumes a far different degree of importance, as is explained in my former letters.

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“The only advantage which Smith proposes by substituting paper in the room of gold and silver money, B. 2. c. 2. 434, is ‘to replace an expensive instrument with one much less costly, and *sometimes* equally convenient’ that is to say, page 437, ‘to allow the gold and silver to be sent abroad and converted into foreign goods,’ and to substitute paper as being a cheaper measure. But this makes no addition to the stock or capital of the nation. The coin sent out was worth as much, while in the country, as the goods imported and taking its place. It is only, then, a change of form in a part of the national capital, from that of gold and silver to other goods. He admits, too, that while a part of the goods received in exchange for the coin exported may be materials, tools and provisions for the employment of an additional industry, a part, also, may be taken back in foreign wines, silks, &c., to be consumed by idle people who produce nothing; and so far the substitution promotes prodigality, increases expense and corruption, without increasing production. So far also, then, it lessens the capital of the nation. What may be the amount which the conversion of the part exchanged for productive goods may add to the former productive mass, it is not easy to ascertain, because, as he says, page 441, ‘it is impossible to determine what is the proportion which the circulating money of any country bears to the whole value of the annual produce. It has been computed by different authors, from a fifth*

* The real cash or money necessary to carry on the circulation and barter of a State, is nearly one third part of all the annual rents of the proprietors of the said State; that is, one ninth of the whole produce of the land. Sir William Petty supposes one tenth part of the value of the whole produce sufficient. Postlethwait, voce, Cash.

to a thirtieth of that value.’ In the United States it must be less than in any other part of the commercial world; because the great mass of their inhabitants being in responsible circumstances, the great mass of their exchanges in the country is effected on credit, in their merchants’ ledger, who supplies all their wants through the year, and at the end of it receives the produce of their farms, or other articles of their industry. It is a fact, that a farmer with a revenue of ten thousand dollars a year, may obtain all his supplies from his merchant, and liquidate them at the end of the year, by the sale of his produce

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to him, without the intervention of a single dollar of cash. This, then, is merely barter, and in this way of barter a great portion of the annual produce of the United States is exchanged without the intermediation of cash. We might safely, then, state our medium at the minimum of one-thirtieth. But what is one-thirtieth of the value of the annual produce of the industry of the United States? Or what is the whole value of the annual produce of the United States? An able writer and competent judge of the subject, in 1799, on as good grounds as probably could be taken, estimated it, on the then population of four and a half millions of inhabitants, to be thirty-seven and a half millions sterling, or one hundred and sixty-eight and three-fourths millions of dollars. See Cooper's *Political Arithmetic*, page 47. According to the same estimate for our present population, it will be three hundred millions of dollars, one-thirtieth of which, Smith's minimum, would be ten millions, and one-fifth, his maximum, would be sixty millions for the quantum of circulation. But suppose that instead of our needing the least circulating medium of any nation, from the circumstance before mentioned, we should place ourselves in the middle term of the calculation, to-wit: at thirty-five millions. One-fifth of this, at the least, Smith thinks should be retained in specie, which would leave twenty-eight millions of specie to be exported in exchange for other commodities; and if fifteen millions of that should be returned in productive goods, and not in articles of prodigality, that would be the amount of capital which this operation would add to the existing mass. But to what mass? Not that of the three hundred millions, which is only its gross annual produce, but to that capital of which the three hundred millions are but the annual produce. But this being gross, we may infer from it the value of the capital by considering that the rent of lands is generally fixed at one-third of the gross produce, and is deemed its nett profit, and twenty times that its fee simple value. The profits on landed capital may, with accuracy enough for our purpose, be supposed on a par with those of other capital. This would give us then for the United States, a capital of two thousand millions, all in active employment, and exclusive of unimproved lands lying in a great degree dormant. Of this, fifteen millions would be the hundred and thirty-third part. And it is for this petty addition to the capital of the nation, this minimum of one dollar, added to one hundred and thirty-three and a third or three-fourths per cent., that we are to

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give up our gold and silver medium, its intrinsic solidity, its universal value, and its saving powers in time of war, and to substitute for it paper, with all its train of evils, moral, political and physical, which I will not pretend to enumerate.

“There is another authority to which we may appeal for the proper quantity of circulating medium for the United States. The old Congress, when we were estimated at about two millions of people, on a long and able discussion, June 22d, 1775, decided the sufficient quantity to be two millions of dollars, which sum they then emitted.*

* Within five months after this, they were compelled by the necessities of the war, to abandon the idea of emitting only an adequate circulation, and to make necessities the sole measure of their emissions.

According to this, it should be eight millions, now that we are eight millions of people. This differs little from Smith's minimum of ten millions, and strengthens our respect for that estimate.

“There is, indeed, a convenience in paper; its easy transmission from one place to another. But this may be mainly supplied by bills of exchange, so as to prevent any great displacement of actual coin. Two places trading together balance their dealings, for the most part, by their mutual supplies, and the debtor individuals of either may, instead of cash, remit the bills of those who are creditors in the same dealings; or may obtain them through some third place with which both have dealings. The cases would be rare where such bills could not be obtained, either directly or circuitously, and too unimportant to the nation to overweigh the train of evils flowing from paper circulation.

“From eight to thirty-five millions then being our proper circulation, and two hundred millions the actual one, the memorial proposes to issue ninety millions more, because, it says, a great scarcity of money is proved by the numerous applications for banks; to wit, New-York for eighteen millions, Pennsylvania ten millions, &c. The answer to this shall be quoted from Adam Smith, B. 2. c. 2. page 462; where speaking of the complaints of the

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trader against the Scotch bankers, who had already gone too far in their issues of paper, he says, 'those traders and other undertakers having got so much assistance from banks, wished to get still more. The banks, they seem to have thought could extend their credits to whatever sum might be wanted, without incurring any other expense besides that of a few reams of paper. They complained of the contracted views and dastardly spirit of the directors of those banks, which did not, they said, extend their credits in proportion to the extension of the trade of the country, meaning, no doubt, by the extension of that trade, the extension of their own projects beyond what they could carry on, either *with their own capital*, or with what they had credit to borrow of private people in the usual way of bond or mortgage. The banks, they seem to have thought, were in honor bound to supply the deficiency, and to provide them with all the capital which they wanted to trade with.' And again, page 470: 'when bankers discovered that certain projectors were trading, not with any capital of their own, but with that which they advanced them, they endeavored to withdraw gradually, making every day greater and greater difficulties about discounting. These difficulties alarmed and enraged in the highest degree those projectors. Their own distress, of which this prudent and necessary reserve of the banks was no doubt the immediate occasion, they called the distress of the country; and this distress of the country, they said, was altogether owing to the ignorance, pusillanimity, and bad conduct of the banks, which did not give a sufficiently liberal aid to the spirited undertakings of those who exerted themselves in order to beautify, improve and enrich the country. It was the duty of the banks, they seemed to think, to lend for as long a time, and to as great an extent, as they might wish to borrow.' It is, probably, the *good paper* of these projectors which the memorial says, the bank being *unable* to discount, goes into the hands of brokers, who (knowing the risk of this *good paper*) discount it at a much higher rate than legal interest, to the great distress of the enterprising adventurers, who had rather try trade on borrowed capital, than go to the plough or other laborious calling. Smith again says, page 478, 'that the industry of Scotland languished for want of money to employ it, was the opinion of the famous Mr. Law. By establishing a bank of a particular kind, which, he seems to have imagined might issue paper to the amount of the whole value of all

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the lands in the country, he proposed to remedy this want of money. It was afterwards adopted, with some variations, by the Duke of Orleans, at that time Regent of France. The idea of the possibility of multiplying paper to almost any extent, was the real foundation of what is called the Mississippi scheme, the most extravagant project both of banking and stock jobbing, that perhaps the world ever saw. The principles upon which it was founded are explained by Mr. Law himself, in a discourse concerning money and trade, which he published in Scotland when he first proposed his project. The splendid but visionary ideas which are set forth in that and some other works upon the same principles, still continue to make an impression upon many people, and have perhaps, in part, contributed to that excess of banking which has of late been complained of both in Scotland and in other places.' The Mississippi scheme, it is well known, ended in France in the bankruptcy of the public treasury, the crush of thousands and thousands of private fortunes, and scenes of desolation and distress equal to those of an invading army, burning and laying waste all before it.

"At the time we were funding our national debt, we heard much about 'a public debt, being a public blessing;' that the stock representing it was a creation of active capital for the aliment of commerce, manufactures and agriculture. This paradox was well adapted to the minds of believers in dreams, and the gulls of that size entered *bonâ fide* into it. But the art and mystery of banks is a wonderful improvement on that. It is established on the principle that ' *private* debts are a public blessing.' That the evidences of those private debts, called bank notes, become active capital, and aliment the whole commerce, manufactures, and agriculture of the United States. Here are a set of people, for instance, who have bestowed on us the great blessing of running in our debt about two hundred millions of dollars without our knowing who they are, where they are, or what property they have to pay this debt when called on; nay, who have made us so sensible of the blessings of letting them run in our debt, that we have exempted them by law from the payment of these debts beyond a given proportion, (generally estimated at one-third.) And to fill up the measure of blessing, instead of paying, they receive an interest on what they owe from

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those to whom they owe; for all the notes, or evidences of what they owe, which we see in circulation, have been lent to somebody on an interest which is levied again on us through the medium of commerce. And they are so ready still to deal out their liberalities to us, that they are now willing to let themselves run in our debt ninety millions more, on our paying them the same premium of six or eight per cent. interest, and on the same legal exemption from the repayment of more than thirty millions of the debt, when it shall be called for. But let us look at this principle in its original form, and its copy will then be equally understood. 'A public debt is a public blessing.' That our debt was juggled from forty-three up to eighty millions, and funded at that amount, according to this opinion was a great public blessing, because the evidences of it could be vested in commerce, and thus converted into active capital, and then the more the debt was made to be, the more active capital was created. That is to say, the creditors could now employ in commerce the money due them from the public, and make from it an annual profit of five per cent., or four millions of dollars. But observe, that the public were at the same time paying on it an interest of exactly the same amount of four millions of dollars. Where then is the gain to either party, which makes it a public blessing? There is no change in the state of things, but of persons only. A has a debt due to him from the public, of which he holds their certificate as evidence, and on which he is receiving an annual interest. He wishes, however, to have the money itself, and to go into business with it, B has an equal sum of money in business, but wishes now to retire, and live on the interest. He therefore gives it to A in exchange for A's certificates of public stock. Now, then, A has the money to employ in business, which B so employed before. B has the money on interest to live on, which A. lived on before; and the public pays the interest to B. which they paid to A. before. Here is no new creation of capital, no additional money employed, nor even a change in the employment of a single dollar. The only change is of place between A and B in which we discover no creation of capital, nor public blessing. Suppose, again, the public to owe nothing. Then A not having lent his money to the public, would be in possession of it himself, and would go into business without the previous operation of selling stock. Here again, the same quantity of capital is employed as in the former case, though no public debt exists. In neither case is there

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any creation of active capital, nor other difference than that there is a public debt in the first case, and none in the last; and we may safely ask which of the two situations is most truly a public blessing? If, then, a *public* debt be no public blessing, we may pronounce, *a fortiori*, that a private one cannot be so. If the debt which the banking companies owe be a blessing to any body, it is to themselves alone, who are realizing a solid interest of eight or ten per cent. on it. As to the public, these companies have banished all our gold and silver medium, which, before their institution, we had without interest, which never could have perished in our hands, and would have been our salvation now in the hour of war; instead of which they have given us two hundred million of froth and bubble, on which we are to pay them heavy interest, until it shall vanish into air, as Morris' notes did. We are warranted, then, in affirming that this parody on the principle of 'a public debt being a public blessing,' and its mutation into the blessing of private instead of public debts, is as ridiculous as the original principle itself. In both cases, the truth is, that capital may be produced by industry, and accumulated by economy; but jugglers only will propose to create it by legerdemain tricks with paper.

"I have called the actual circulation of bank paper in the United States, two hundred millions of dollars. I do not recollect where I have seen this estimate; but I retain the impression that I thought it just at the time. It may be tested, however, by a list of the banks now in the United States, and the amount of their capital. I have no means of recurring to such a list for the present day; but I turn to two lists in my possession for the years of 1803 and 1804.

In 1803, there were thirty-four banks, whose capital was \$28,902,000

In 1804, there were sixty-six, consequently thirty-two additional ones. Their capital is not stated, but at the average of the others, (excluding the highest, that of the United States, which was of ten millions,) they would be of six hundred thousand dollars each, and add 19,200,000

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Making a total of \$48, 102,000

or say of fifty millions in round numbers. Now, every one knows the immense multiplication of these institutions since 1804. If they have only doubled, their capital will be of one hundred millions, and if trebled, as I think probable, it will be one hundred and fifty millions, on which they are at liberty to circulate treble the amount. I should sooner, therefore, believe two hundred millions to be far below than above the actual circulation. In England, by a late parliamentary document, (see *Virginia Argus* of October the 18th, 1813, and other public papers of about that date,) it appears that six years ago the Bank of England had twelve millions of pounds sterling in circulation, which had increased to forty-two millions in 1812, or to one hundred and eighty-nine millions of dollars. What proportion all the other banks may add to this, I do not know; if we were allowed to suppose they equal it, this would give a circulation of three hundred and seventy-eight millions, or the double of ours on a double population. But that nation is essentially commercial, ours essentially agricultural, and needing, therefore, less circulating medium, because the produce of the husbandman comes but once a year, and is then partly consumed at home, partly exchanged by Barter. The dollar, which was of four shillings and sixpence sterling, was, by the same document, stated to be then six shillings and nine pence, a depreciation of exactly fifty per cent. The average price of wheat on the continent of Europe, at the commencement of its present war with England, was about a French crown of one hundred and ten cents, the bushel. With us it was one hundred cents, and consequently we could send it there in competition with their own. That ordinary price has now doubled with us, and more than doubled in England; and although a part of this augmentation may proceed from the war demand, yet from the extraordinary nominal rise in the prices of land and labor here, both of which have nearly doubled in that period, and are still rising with every new bank, it is evident that were a general peace to take place to-morrow, and time allowed for the re-establishment of commerce, justice, and order, we could not afford to raise wheat for much less than two dollars, while the continent of Europe, having no paper circulation, and that of its specie not being augmented, would raise it at their

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former price of one hundred and ten cents. It follows, then, that with our redundancy of paper, we cannot, after peace, send a bushel of wheat to Europe, unless extraordinary circumstances double its price in particular places, and that then the exporting countries of Europe could undersell us.

“It is said that our paper is as good as silver, because we may have silver for it at the bank where it issues. This is not true. One, two, or three persons might have it; but a general application would soon exhaust their vaults, and leave a ruinous proportion of their paper in its intrinsic worthless form. It is a fallacious pretence, for another reason. The inhabitants of the banking cities might obtain cash for their paper, as far as the cash of the vaults would hold out, but distance puts it out of the power of the country to do this. A farmer having a note of a Boston or Charleston bank, distant hundreds of miles, has no means of calling for the cash. And while these calls are impracticable for the country, the banks have no fear of their being made from the towns; because their inhabitants are mostly on their books, and there on sufferance only, and during good behavior.

“In this state of things, we are called on to add ninety millions more to the circulation. Proceeding in this career, it is infallible, that we must end where the revolutionary paper ended. Two hundred millions was the whole amount of all the emissions of the old Congress, at which point their bills ceased to circulate. We are now at that sum, but with treble the population, and of course a longer tether. Our depreciation is, as yet, but about two for one. Owing to the support its credit receives from the small reservoirs of specie in the vaults or the banks, it is impossible to say at what point their notes will stop. Nothing is necessary to effect it but a general alarm; and that may take place whenever the public shall begin to reflect on, and perceive the impossibility that the banks should repay this sum. At present, caution is inspired no farther than to keep prudent men from selling property on long payments. Let us suppose the panic to arise at three hundred millions, a point to which every session of the legislatures hasten us by long strides. Nobody dreams that they would have three hundred millions of specie to satisfy the holders of their notes. Were they even to stop now, no one supposes they have two hundred millions in cash,

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or even the sixty-six and two-third millions, to which amount alone the law compels them to repay. One hundred and thirty-three and one-third millions of loss, then, is thrown on the public by law; and as to the sixty-six and two-thirds, which they are legally bound to pay, and ought to have in their vaults, every one knows there is no such amount of cash in the United States, and what would be the course with what they really have there? Their notes are refused. Cash is called for. The inhabitants of the banking towns will get what is in the vaults, until a few banks declare their insolvency; when, the general crush becoming evident, the others will withdraw even the cash they have, declare their bankruptcy at once, and leave an empty house and empty coffers for the holders of their notes. In this scramble of creditors, the country gets nothing, the towns but little. What are they to do? Bring suits? A million of creditors bring a million of suits against John Nokes and Robert Styles, wheresoever to be found? All nonsense. The loss is total. And a sum is thus swindled from our citizens, of seven times the amount of the real debt, and four times that of the fictitious one of the United States, at the close of the war. All this they will justly charge on their legislatures; but this will be poor satisfaction for the two or three hundred millions they will have lost. It is time, then, for the public functionaries to look to this. Perhaps it may not be too late. Perhaps, by giving time to the banks, they may call in and pay off their paper by degrees. But no remedy is even to be expected while it rests with the State legislatures. Personal motive can be excited through so many avenues to their will, that, in their hands, it will continue to go on from bad to worse, until the catastrophe overwhelms us. I still believe, however, that on proper representations of the subject, a great proportion of these legislatures would cede to Congress their power of establishing banks, saving the charter rights already granted. And this should be asked, not by way of amendment to the constitution, because until three-fourths should consent, nothing could be done; but accepted from them one by one, singly, as their consent might be obtained. Any single State, even if no other should come into the measure, would find its interest in arresting foreign bank paper immediately, and its own by degrees. Specie would flow in on them as paper disappeared. Their own banks would call in and pay off their notes gradually, and their constituents would thus be saved from the general wreck.

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Should the greater part of the States concede, as is expected, their power over banks to Congress, besides insuring their own safety, the paper of the non-conceding States might be so checked and circumscribed, by prohibiting its receipt in any of the conceding States, and even in the non-conceding as to duties, taxes, judgments, or other demands of the United States, or of the citizens of other States, that it would soon die of itself, and the medium of gold and silver be universally restored. This is what ought to be done. But it will not be done. *Carthago non delibitur*. The overbearing clamor of merchants, speculators, and projectors, will drive us before them with our eyes open, until, as in under the Mississippi bubble, our citizens will be overtaken by the crush of this baseless fabric, without other satisfaction than that of execrations on the heads of those functionaries, who, from ignorance, pusillanimity or corruption, have betrayed the fruits of their industry into the hands of projectors and swindlers.

“When I speak comparatively of the paper emission of the old Congress and the present banks, let it not be imagined that I cover them under the same mantle. The object of the former was a holy one; for if ever there was a holy war, it was that which saved our liberties and gave us independence. The object of the latter, is to enrich swindlers at the expense of the honest and industrious part of the nation.

“The sum of what has been said is, that pretermittting the constitutional question on the authority of Congress, and considering this application on the grounds of reason alone, it would be best that our medium should be so proportioned to our produce, as to be on a par with that of the countries with which we trade, and whose medium is in a sound state; that specie is the most perfect medium, because it will preserve its own level; because, having intrinsic and universal value, it can never die in our hands, and it is the surest resource of reliance in time of war; that the trifling economy of paper, as a cheaper medium, or its convenience for transmission, weighs nothing in opposition to the advantages of the precious metals; that it is liable to be abused, has been, is, and forever will be abused, in every country in which it is permitted; that it is already at a term of abuse in these States, which has never been reached by any other nation, France excepted,

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whose dreadful catastrophe should be a warning against the instrument which produced it; that we are already at ten or twenty times the due quantity of medium; insomuch, that no man knows what his property is now worth, because it is bloating while he is calculating; and still less what it will be worth when the medium shall be relieved from its present dropsical state; and that it is a palpable falsehood to say we can have specie for our paper whenever demanded. Instead, then, of yielding to the cries of scarcity of medium set up by speculators, projectors and commercial gamblers, no endeavors should be spared to begin the work of reducing it by such gradual means as may give time to private fortunes to preserve their poise, and settle down with the subsiding medium; and that, for this purpose, the States should be urged to concede to the General Government, with a saving of chartered rights, the exclusive power of establishing banks of discount for paper.

“To the existence of banks of *discount for cash*, as on the continent of Europe, there can be no objection, because there can be no danger of abuse, and they are a convenience both to merchants and individuals. I think they should even be encouraged, by allowing them a larger than legal interest on short discounts, and tapering thence, in proportion as the term of discount is lengthened, down to legal interest on those of a year or more. Even banks of *deposit*, where cash should be lodged, and a paper acknowledgment taken out as its representative, entitled to a return of the cash on demand, would be convenient for remittances, travelling persons, &c. But, liable as its cash would be to be pilfered and robbed, and its paper to be fraudulently re-issued, or issued without deposit, it would require skilful and strict regulation. This would differ from the bank of Amsterdam, in the circumstance that the cash could be redeemed on returning the note.

“When I commenced this letter to you, my dear Sir, on Mr. Law's memorial, I expected a short one would have answered that. But as I advanced, the subject branched itself before me into so many collateral questions, that even the rapid views I have taken of each have swelled the volume of my letter beyond my expectations, and, I fear, beyond your patience. Yet on a revisal of it, I find no part which has not so much bearing on the

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subject as to be worth merely the time of perusal. I leave it then as it is; and will add only the assurances of my constant and affectionate esteem and respect.”